

LOW RENT HOUSING AGENCY OF BANCROFT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
COMMENTS AND RECOMMENDATIONS

YEAR ENDED DECEMBER 31, 2008

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
of the Low Rent Housing Agency of Bancroft:

I was engaged to audit the accompanying financial statements of the Low Rent Housing Agency of Bancroft, a component unit of the City of Bancroft, Iowa, as of December 31, 2008 and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Low Rent Housing Agency of Bancroft. The financial statements of the Low Rent Housing Agency of Bancroft as of December 31, 2007, were audited by other auditors whose report dated June 30, 2008, expressed an unqualified opinion on those statements.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Low Rent Housing Agency of Bancroft, a component unit of the City of Bancroft, Iowa, as of December 31, 2008 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my reports dated September 14, 2009, on my consideration of the Low Rent Housing Agency of Bancroft's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis on pages 3 through 8 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Low Rent Housing Agency of Bancroft's basic financial statements. The Financial Data Schedule required by the Department of Housing and Urban Development, Real Estate Assessment Center, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



September 14, 2009

# **LOW RENT HOUSING AGENCY OF BANCROFT**

## **Management's Discussion and Analysis**

The Low Rent Housing Agency of Bancroft (Agency) provides this management discussion and analysis of the Agency's annual financial statements to assist the reader in focusing on significant financial issues, provide an overview of the Agency's financial activity, identify changes in the Agency's financial position, and identify individual fund issues or concerns. The Management's Discussion and Analysis for the fiscal year ended December 31, 2008 is designed to focus on the year's activities, resulting changes, and currently known facts. Please read it in conjunction with the Agency's audited financial statements.

The Agency owns and operates 28 public housing units in the city of Bancroft, Iowa. The public housing program provides rental assistance for low income, elderly, and disabled persons. Revenue to operate the units is received from a combination of tenant rents (based at approximately 30% of tenant income) and a federal operating subsidy from the Department of Housing and Urban Development (HUD). The operating subsidy is based upon a HUD derived formula. Additionally, capital improvement grants from HUD permit the Agency to maintain the physical structure of the buildings and improve energy efficiency.

The City of Bancroft oversees the operation of the Agency, which is governed by a city Board. The day-to-day operations of the Agency were managed by a property management company from January through September of the fiscal year, and by a regional housing authority from October through December of the fiscal year. The change in managers is expected to reduce the Agency's operating costs, as the new manager charges only for actual costs to manage the Agency. The new manager also has considerable experience and expertise in operating public housing rental programs.

The new manager has a developed system of internal procedures to ensure that expenditures represent allowable costs and are properly documented and approved. Other managerial procedures ensure that calculations related to rent subsidies are accurate and in accordance with federal regulations. Additional procedures are in place by the manager to ensure compliance with state and local laws. Policies are continually reviewed for legal and regulatory changes as well as changes in circumstances. The manager reports financial and other regulatory and relevant information to the Board on a monthly basis.

## 2008 Financial Highlights

- Cash decreased by 53%, or approximately \$78,500 from fiscal year 2007 to fiscal year 2008. This was the result of investing cash into longer term certificates of deposit with higher interest yields.
- Current assets increased 18%, or approximately \$35,200 as a result of an increase in receivables.
- The Agency's net assets increased .4%, or approximately \$3,000 during 2008. Net assets were \$675,300 and \$672,200 for 2008 and 2007, respectively.
- Operating revenues decreased by 12%, or approximately \$13,700 during 2008, and were \$100,800 and \$114,500 during 2008 and 2007, respectively. This was a result of an 8% decrease in tenant rents as well as an 18% decrease in the operating subsidy received from HUD.
- Operating expenses increased by 2%, or approximately \$3,800 during 2008, and were \$180,300 and \$176,400 during 2008 and 2007, respectively. The agency made strides in reducing and containing operating expenses, and specifically maintenance and independent contractor costs.

## Using this Annual Report

The Annual Report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Agency's financial activities.

The basic financial statements consist of a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Net Assets, and a Statement of Cash Flows.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Required Supplementary Information provides detailed information about the operations of the Agency.

## Agency-wide Financial Statements

The Statement of Net Assets, is similar to a corporate balance sheet. This statement reports all financial and capital resources for the Agency. The statement is presented in the format where assets, minus liabilities, equal "Net Assets", formerly known as equity. Assets and liabilities are presented in order of liquidity, and are classified as "Current" (convertible into cash within one year), and "Non-current". "Net Assets" are reported in two broad categories:

"Assets, Invested in Capital Assets, Net of Related Debt" represents all capital assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The Agency does not have any outstanding capital debt.

"Unrestricted Net Assets" consists of net assets that do not meet the definition of "Assets Invested in Capital Assets, Net of Related Debt". Unrestricted net assets represent the net available liquid (non-capital) assets, net of liabilities.

The Agency-wide financial statements also include a Statement of Revenues, Expenses and Changes in Fund Net Assets (similar to a corporate income statement). This statement includes operating revenues, such as rental income, and operating expenses, such as administrative, utilities, maintenance, and depreciation, as well as non-operating revenue and expenses, such as capital grant revenue, investment income and interest expense. The focus of the Statement of Revenues, Expenses and Changes in Fund Net Assets is the "Change in Net Assets", which is similar to a corporate net income or loss.

Finally, a Statement of Cash Flows is included, which discloses net cash provided by, or used for operating activities, non-capital financing activities, and from capital and related financing activities.

The financial statements use the accrual basis of accounting, which means all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

### Assets, Liabilities, and Net Assets

	2008	2007	2006
Assets:			
Current Assets	\$ 229,835	\$ 194,623	\$ 194,729
Capital Assets	452,249	487,349	527,866
Restricted Assets	8,319	6,758	8,021
<b>Total Assets</b>	<b>\$ 690,403</b>	<b>\$ 688,730</b>	<b>\$ 730,616</b>
Liabilities:			
Current Liabilities	\$ 15,131	\$ 16,550	\$ 15,842
<b>Total Liabilities</b>	<b>\$ 15,131</b>	<b>\$ 16,550</b>	<b>\$ 15,842</b>
Net Assets:			
Invested in Capital Assets	\$ 452,249	\$ 487,349	\$ 527,866
Unrestricted Net Assets	223,023	184,831	186,908
<b>Total Net Assets</b>	<b>\$ 675,272</b>	<b>\$ 672,180</b>	<b>\$ 714,774</b>

## Revenues, Expenses and Changes in Net Assets

	2008	2007	2006
Operating Revenues:			
Dwelling Rental	\$ 48,540	\$ 52,988	\$ 50,396
HUD Operating Subsidies	47,020	57,409	83,615
Other Income	5,242	4,140	2,850
Total Operating Revenue	\$ 100,802	\$ 114,537	\$ 136,861
Expenses			
Fiscal and Administrative Expense	\$ 42,350	\$ 37,536	\$ 38,759
General Expense	80,993	83,539	59,792
Depreciation Expense (1)	56,935	55,365	55,043
Total Operating Expenses	180,278	176,440	153,594
Operating Income (Loss)	(79,476)	(61,903)	(16,733)
Non Operating Revenues (Expenses)			
Interest	\$ 3,393	\$ 5,290	\$ 3,125
Capital Contributions (2)	79,175	14,019	4,336
Total Non Operating Revenues (Expenses)	\$ 82,568	\$ 19,309	\$ 7,461
Increase (Decrease) in Net Assets	\$ 3,092	\$ (42,594)	\$ (9,272)
Net Assets, Beginning of Year	672,180	714,774	724,046
Net Assets, End of Year	\$ 675,272	\$ 672,180	\$ 714,774

(1) Depreciation is treated as an expense and reduces the results of operations, but does not have an impact on Unrestricted Net Assets.

(2) Funding provided for capital grants, pursuant to GASB 33, is presented as revenue. However, the revenue is absorbed by the associated capital expenditures and therefore does not increase Unrestricted Net Assets.

## Capital Assets and Debt Administration

### Capital Assets

As of year-end, the Agency had \$ 452,249 invested in capital assets, net of accumulated depreciation, as detailed in Note 3 of the financial statements.

### Long-term Debt Outstanding:

The agency has no long-term debt.



## **Economic Factors**

The Low Rent Housing Agency of Bancroft's financial position deteriorated for a third consecutive fiscal year. Significant economic factors affecting the agency which may potentially challenge the agency in the future include:

- Uncertain federal funding provided by Congress to the Department of Housing and Urban Development
- Limited population growth causing increased vacancies and reduced rental income
- Local inflationary, recessionary, and employment trends which can affect resident incomes and therefore the amount of rental income
- Inflationary pressure on utility rates, supplies, and other costs
- Aging facilities requiring increased maintenance, upkeep, and costly repairs.

## **Financial Contact**

The financial reports are designed to present our tenants, citizens, taxpayers, suppliers, investors, creditors, and other users with a general overview of the agency's finances and operating activities. Specific requests regarding this report or for additional information may be submitted to:

Low Rent Housing Agency of Bancroft  
c/o NIRHA  
202 1<sup>st</sup> St., SE, Suite 203  
Mason City, IA 50401  
641-423-0897

LOW RENT HOUSING AGENCY OF BANCROFT  
Statements of Net Assets  
Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 68,764	\$ 147,295
Investments	120,000	45,677
Receivables:		
Accounts receivable-Trade	4,048	-
Accounts receivable-HUD	35,317	-
Accrued interest	136	134
Prepaid expenses	1,570	1,517
Total current assets	<u>\$ 229,835</u>	<u>\$ 194,623</u>
Non-current assets:		
Restricted assets:		
Cash and cash equivalents	\$ 2,905	\$ 6,758
Accounts receivable	414	-
Investments	5,000	-
Total restricted assets	<u>\$ 8,319</u>	<u>\$ 6,758</u>
Capital assets	\$1,522,680	\$1,500,845
Less accumulated depreciation	<u>(1,070,431)</u>	<u>(1,013,496)</u>
Net capital assets	<u>\$ 452,249</u>	<u>\$ 487,349</u>
Total non-current assets	<u>\$ 460,568</u>	<u>\$ 494,107</u>
Total assets	<u>\$ 690,403</u>	<u>\$ 688,730</u>
<b>LIABILITIES:</b>		
Current liabilities:		
Accounts payable-Vendors	\$ 6,098	\$ 9,645
Tenant security deposits	8,319	6,668
Deferred revenue	714	237
Total liabilities	<u>\$ 15,131</u>	<u>\$ 16,550</u>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	\$ 452,249	\$ 487,349
Unrestricted	<u>223,023</u>	<u>184,831</u>
Total net assets	<u>\$ 675,272</u>	<u>\$ 672,180</u>

See Notes to Financial Statements.

LOW RENT HOUSING AGENCY OF BANCROFT  
 Statements of Revenues, Expenses, and Changes in Net Assets  
 Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Tenant rent revenue	\$ 48,540	\$ 52,988
Grants and contributions	47,020	57,409
Other operating revenues	5,242	4,140
Total operating revenue	<u>\$ 100,802</u>	<u>\$ 114,537</u>
Operating expenses:		
General service	\$ 80,993	\$ 83,539
Fiscal and administrative service	42,350	37,536
Provision for depreciation	56,935	55,365
Total operating expenses	<u>\$ 180,278</u>	<u>\$ 176,440</u>
Operating income (loss)	<u>\$ (79,476)</u>	<u>\$ (61,903)</u>
Non-operating revenues:		
Capital contributions	\$ 79,175	\$ 14,019
Interest income	3,393	5,290
Total non-operating revenues	<u>\$ 82,568</u>	<u>\$ 19,309</u>
Change in net assets	\$ 3,092	\$ (42,594)
Net assets beginning of year	<u>672,180</u>	<u>714,774</u>
Net assets end of year	<u>\$ 675,272</u>	<u>\$ 672,180</u>

See Notes to Financial Statements.

LOW RENT HOUSING AGENCY OF BANCROFT  
Statements of Cash Flows  
Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Cash flows from operating activities:</b>		
Cash received from tenant rents	\$ 47,705	\$ 53,225
Cash received from HUD	47,020	57,409
Cash received from tenant security deposits	1,237	-
Cash paid to suppliers of goods or services	(126,880)	(120,632)
Other operating revenues	2,029	4,140
Net cash provided (used) by operating activities	<u>\$ (28,889)</u>	<u>\$ (5,858)</u>
<b>Cash flows from non-capital financing activities:</b>		
Capital contribution	<u>\$ 43,858</u>	<u>\$ 14,019</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	<u>\$ (21,510)</u>	<u>\$ (14,021)</u>
<b>Cash flows from investing activities:</b>		
Purchase of investments	\$ (125,000)	\$ -
Interest on investments	3,480	5,290
Investment income reinvested	-	(829)
Net cash provided by investing activities	<u>\$ (121,520)</u>	<u>\$ 4,461</u>
Net increase (decrease) in cash and cash equivalents	\$ (128,061)	\$ (1,399)
Cash and cash equivalents beginning of year	<u>199,730</u>	<u>201,129</u>
Cash and cash equivalents end of year	<u>\$ 71,669</u>	<u>\$ 199,730</u>
<b>Reconciliation of cash and cash equivalents to the statement of net assets:</b>		
Cash and cash equivalents	\$ 68,764	\$ 192,972
Assets whose use is limited:		
Cash and cash equivalents	2,905	6,758
Total cash and cash equivalents	<u>\$ 71,669</u>	<u>\$ 199,730</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ (79,476)	\$ (61,903)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation expense	56,935	55,365
Change in assets and liabilities:		
(Increase) decrease in receivables	(4,462)	-
(Increase) decrease in prepaid expenses	(53)	(30)
Increase (decrease) in accounts payable	(3,547)	473
Increase (decrease) in deferred revenue	477	237
Increase (decrease) in other liabilities	1,237	-
Net cash provided by operating activities	<u>\$ (28,889)</u>	<u>\$ (5,858)</u>

See Notes to Financial Statements.

LOW RENT HOUSING AGENCY OF BANCROFT  
Notes to Financial Statements  
December 31, 2008

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Low Rent Housing Agency of Bancroft is a special purpose government organization organized under Iowa Code Chapter 403A, Municipal Housing Projects. The Agency is located in Bancroft, Iowa, and serves the Bancroft, Iowa, area. The Agency has an appointed governing body from the Bancroft area consisting of all city council members and one tenant. The Agency's revenue is generated by rents from their 28 conventional low rent units.

For financial reporting purposes, the Low Rent Housing Agency of Bancroft has included all funds, organizations, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Agency. The Low Rent Housing Agency of Bancroft has no component units which meet the Governmental Accounting Standards Board criteria.

The Housing Agency is considered a component unit of the City of Bancroft, Iowa. As such, the Agency's financial statements should be included in the City's financial statements.

B. Measurement Focus and Basis of Accounting

The Low Rent Housing Agency of Bancroft maintains its financial records on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of proprietary funds are user fees and charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Agency has elected not to follow subsequent private-sector guidance.

LOW RENT HOUSING AGENCY OF BANCROFT  
Notes to Financial Statements  
December 31, 2008

(1) Summary of Significant Accounting Policies - (continued)

C. Assets, Liabilities and Net Assets

*Cash Management and Investments*

The Agency maintains one primary demand deposit account through which the majority of the Agency's cash resources are processed. The Agency's cash and cash equivalents include amounts in demand deposits as well as short-term investments with an original maturity date within three months of the date acquired by the Agency.

*Trade Receivables*

Trade receivables as of December 31, 2008 and 2007, are net of allowance for doubtful accounts.

*Restricted Assets*

Assets which can be designated by the Board of Commissioners for any use within the Agency's purpose are considered to be unrestricted assets. Assets which are restricted for specific uses by debt requirements, grant provisions, or other requirements are classified as restricted assets. Liabilities which are payable from restricted assets, are classified as such.

*Capital Assets*

Capital assets, which include land, buildings, improvements other than buildings, and equipment are reported by the Agency. Capital assets are defined by the Agency as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair-market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Buildings, improvements other than buildings, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings and structures	15 to 40 years
Improvements other than buildings	15 years
Equipment	7 years

*Accrued Expenses*

Since the Authority is a government agency, it does not pay property tax on the public housing properties it owns.

LOW RENT HOUSING AGENCY OF BANCROFT  
Notes to Financial Statements  
December 31, 2008

(2) Cash and Investments

The Agency's deposits in banks at December 31, 2008 were entirely covered by Federal depository insurance or by the State Sinking fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Agency; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Agency had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Capital Assets

Capital asset activity for the year ended December 31, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 132,290	\$ -	\$ -	\$ 132,290
Construction in progress	<u>11,955</u>	<u>-</u>	<u>11,955</u>	<u>-</u>
Total capital assets, not being depreciated	<u>\$ 144,245</u>	<u>\$ -</u>	<u>\$ 11,955</u>	<u>\$ 132,290</u>
Capital assets, being depreciated:				
Buildings and structures	\$1,189,896	\$ 29,212	\$ -	\$1,219,108
Improvements other than buildings	98,768	-	-	98,768
Equipment	<u>67,936</u>	<u>4,578</u>	<u>-</u>	<u>72,514</u>
Total capital assets being depreciated	<u>\$1,356,600</u>	<u>\$ 33,790</u>	<u>\$ -</u>	<u>\$1,390,390</u>
Less accumulated depreciation	<u>1,013,496</u>	<u>56,935</u>	<u>-</u>	<u>1,070,431</u>
Total capital assets being depreciated, net	<u>\$ 343,104</u>	<u>\$ (23,145)</u>	<u>\$ -</u>	<u>\$ 319,959</u>
Total capital assets, net	<u>\$ 487,349</u>	<u>\$ (23,145)</u>	<u>\$ (11,955)</u>	<u>\$ 452,249</u>

Depreciation expense charged to operations for the year ended December 31, 2008 was \$56,935.

LOW RENT HOUSING AGENCY OF BANCROFT  
Notes to Financial Statements  
December 31, 2008

(4) Related Party Transactions

The Agency had material business transactions between the Agency and Agency officials, totaling \$6,055 during the year ended December 31, 2008.

(5) Risk Management

The Low Rent Housing Agency of Bancroft is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(6) Operating Lease Activity

The Low Rent Housing Agency of Bancroft leases its 28 apartments to individuals. These leases are one-year renewable leases, classified as operating leases. In most cases, management expects that, in the normal course of business, all leases will be renewed or replaced by other leases.

(7) Current Vulnerability Due to Certain Concentrations

The Agency's operations are concentrated in the multi-family real estate market. In addition, the Agency operates in a heavily regulated environment. The operations of the Agency are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

(8) Contingencies

The Agency is under rules and regulations of HUD. Due to the amount of questioned costs within the Agency, there exists a possibility that HUD, within its regulations, will terminate the operations of the Agency or alternatively require repayment of grant funds provided to the Agency.



## Other Supplementary Information

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LOW RENT HOUSING AGENCY OF BANCROFT  
Schedule of General Service Expenses  
Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operation of plant:		
Contracts	\$ 26,762	\$ 29,024
Supplies	8,088	9,675
Electricity	16,082	15,720
Gas	20,931	19,422
Water	7,065	8,670
Other utilities	<u>2,065</u>	<u>1,028</u>
Total	<u>\$ 80,993</u>	<u>\$ 83,539</u>

See accompanying independent auditor's report.

LOW RENT HOUSING AGENCY OF BANCROFT  
Schedule of Fiscal and Administrative Service Expenses  
Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Administrative expenses:		
Audit	\$ 1,500	\$ 1,634
Liability and property insurance	6,360	6,040
Management fees	30,623	23,250
Other operating administrative expenses	<u>3,867</u>	<u>6,612</u>
Total administrative expenses	<u>\$ 42,350</u>	<u>\$ 37,536</u>

*See accompanying independent auditor's report.*

LOW RENT HOUSING AGENCY OF BANCROFT  
Financial Data Schedule  
Years ended December 31, 2008

	Low Rent Public Housing	Housing Capital Fund Program	Total
<b>Assets</b>			
Current Assets:			
Cash:			
Cash and cash equivalents	\$ 68,764	\$ -	\$ 68,764
Investments	120,000	-	120,000
Receivables:			
Accounts receivable - Trade	4,048	-	4,048
Accounts receivable - HUD	35,317	-	35,317
Accrued Interest	136	-	136
Prepaid Insurance	1,570	-	1,570
Total Current Assets	<u>\$ 229,835</u>	<u>\$ -</u>	<u>\$ 229,835</u>
Non-Current Assets:			
Restricted Assets:			
Cash and cash equivalents	\$ 2,905	\$ -	\$ 2,905
Accounts receivable	414	-	414
Investments	5,000	-	5,000
Total restricted assets	<u>\$ 8,319</u>	<u>\$ -</u>	<u>\$ 8,319</u>
Capital Assets:			
Land	\$ 132,290	\$ -	\$ 132,290
Buildings	1,219,108	-	1,219,108
Improvements other than buildings	98,768	-	98,768
Furniture, Equipment & Machinery-Dwellings	49,544	-	49,544
Furniture, Equipment & Machinery - Administration	22,970	-	22,970
Accumulated Depreciation	<u>(1,070,431)</u>	<u>-</u>	<u>(1,070,431)</u>
Total Capital Assets, Net of Depreciation	<u>\$ 452,249</u>	<u>\$ -</u>	<u>\$ 452,249</u>
Total non-current assets	<u>460,568</u>	<u>-</u>	<u>460,568</u>
Total assets	<u>\$ 690,403</u>	<u>\$ -</u>	<u>\$ 690,403</u>
<b>Liabilities</b>			
Liabilities:			
Current liabilities:			
Accounts payable	\$ 6,098	\$ -	\$ 6,098
Tenant security deposits	8,319	-	8,319
Deferred revenue	714	-	714
Total current liabilities	<u>\$ 15,131</u>	<u>\$ -</u>	<u>\$ 15,131</u>
Total liabilities	<u>\$ 15,131</u>	<u>\$ -</u>	<u>\$ 15,131</u>
Equity:			
Invested in capital assets, net of related debt	\$ 452,249	\$ -	\$ 452,249
Unrestricted net assets	223,023	-	223,023
Total equity/net assets	<u>\$ 675,272</u>	<u>\$ -</u>	<u>\$ 675,272</u>
Total liabilities and equity/net assets	<u>\$ 690,403</u>	<u>\$ -</u>	<u>\$ 690,403</u>

LOW RENT HOUSING AGENCY OF BANCROFT  
Financial Data Schedule  
Years ended December 31, 2008

	Low Rent Public Housing	Housing Capital Fund Program	Total
<b>Revenue:</b>			
Net tenant rental revenue	\$ 48,540	\$ -	\$ 48,540
Tenant revenue-other	5,242	-	5,242
Total tenant revenue	\$ 53,782	\$ -	\$ 53,782
HUD PHA Operating grants	47,020	-	47,020
Capital grants	-	79,175	79,175
Investment income-unrestricted	3,393	-	3,393
Total revenue	<u>\$ 104,195</u>	<u>\$ 79,175</u>	<u>\$ 183,370</u>
<b>Expenses:</b>			
<b>Administrative:</b>			
Auditing fee	\$ 1,500	\$ -	\$ 1,500
Outside management fee	30,623	-	30,623
Other operating-administrative	3,867	-	3,867
Total administrative	<u>\$ 35,990</u>	<u>\$ -</u>	<u>\$ 35,990</u>
<b>Utilities:</b>			
Water	\$ 7,065	\$ -	\$ 7,065
Electricity	16,082	-	16,082
Gas	20,931	-	20,931
Other utilities	2,065	-	2,065
Total utilities	<u>\$ 46,143</u>	<u>\$ -</u>	<u>\$ 46,143</u>
<b>Ordinary maintenance and operations:</b>			
Ordinary maintenance and operations- materials and other	\$ 8,088	\$ -	\$ 8,088
Ordinary maintenance and operations- contract costs	26,762	-	26,762
Total ordinary maintenance and Operation	<u>\$ 34,850</u>	<u>\$ -</u>	<u>\$ 34,850</u>
<b>General expenses:</b>			
Insurance premiums	\$ 6,360	\$ -	\$ 6,360
Total operating expenses	<u>\$ 123,343</u>	<u>\$ -</u>	<u>\$ 123,343</u>
Excess operating revenue over Operating expenses	<u>\$ (19,148)</u>	<u>\$ 79,175</u>	<u>\$ (19,148)</u>
<b>Other expenses:</b>			
Depreciation expense	\$ 56,935	\$ -	\$ 56,935
Total expenses	<u>\$ 180,278</u>	<u>\$ -</u>	<u>\$ 180,278</u>
<b>Other financing sources(uses):</b>			
Transfers in	\$ 93,547	\$ -	\$ 93,547
Transfers out	-	(93,547)	(93,547)
Total other financing sources(uses)	<u>\$ 93,547</u>	<u>\$ (93,547)</u>	<u>\$ -</u>
Excess(deficiency) of operating revenue Over(under) expenses	<u>\$ 17,464</u>	<u>\$ (14,372)</u>	<u>\$ 3,092</u>
Beginning equity	<u>657,808</u>	<u>14,372</u>	<u>672,180</u>
Ending equity/net assets	<u>\$ 675,272</u>	<u>\$ -</u>	<u>\$ 675,272</u>

See accompanying independent auditor's report.

# Douglas E. Kronlage

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Commissioners  
Low Rent Housing Agency of Bancroft:

I have audited the financial statements of the Low Rent Housing Agency of Bancroft as of and for the year ended December 31, 2008, and have issued my report thereon dated September 14, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Low Rent Housing Agency of Bancroft's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Low Rent Housing Agency of Bancroft's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Low Rent Housing Agency of Bancroft's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Low Rent Housing Agency of Bancroft's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Low Rent Housing Agency of Bancroft's financial statements that is more than inconsequential will not be prevented or detected by Low Rent Housing Agency of Bancroft's internal control. I consider the deficiencies described in the accompanying schedule of findings and responses, to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Low Rent Housing Agency of Bancroft's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that II-08-01 and II-08-02 of the significant deficiencies described above are material weaknesses.

## Compliance

As part of obtaining reasonable assurance about whether the Low Rent Housing Agency of Bancroft's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses.

Comments involving statutory and other legal matters about the Low Rent Housing Agency of Bancroft's operations for the year ended December 31, 2008, are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the Low Rent Housing Agency of Bancroft. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Low Rent Housing Agency of Bancroft's responses to the findings identified in my audit are described in the accompanying schedule of findings and responses. I did not audit Low Rent Housing Agency of Bancroft's responses and, accordingly, I express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Low Rent Housing Agency of Bancroft and other parties to whom the Low Rent Housing Agency of Bancroft may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the Low Rent Housing Agency of Bancroft during the course of my audit.

Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



September 14, 2009

LOW RENT HOUSING AGENCY OF BANCROFT  
Schedule of Findings and Responses  
Year Ended December 31, 2008

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was given on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit disclosed no noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

**PRIOR YEAR SIGNIFICANT DEFICIENCIES:**

There were no prior year significant deficiencies.

**INSTANCES OF NONCOMPLIANCE:**

Instances of noncompliance with grants, contracts and regulations affecting the current year financial statements exist and are included in Part III: Findings Related to Grant Programs of this report.

**SIGNIFICANT DEFICIENCIES:**

II-08-01     Checks Are Being Written Without Proper Authorization - Checks were being written without the proper approval of a responsible member of management.

Recommendation - All disbursements should be approved and authorized by a responsible member of management prior to checks being prepared.

Response - Since October 1, 2008, disbursements are presented to the board for approval before payment is made. The Accounts Payable Voucher is reviewed and initialed by the board chair and NIRHA director. If a payment needs to be made before the next board meeting, the manager will initial the Accounts Payable Voucher and sign the check for payment. The payment will then be submitted to the board at the next meeting. This occurs on a very rare occasion.

Conclusion - Response accepted.

II-08-02     Paid Invoices Not Effectively Cancelled - Invoices supporting disbursements had no indication on the invoice that it had been paid.

Recommendation - All invoices and all pages of invoices used to support a disbursement should be stamped "Paid" with the date of payment after payment has been made. No invoices showing the stamp should be allowed to support a future disbursement.

Response - Since October 1, 2008, all invoices and pages are stamped "Paid"

Conclusion - Response accepted.



LOW RENT HOUSING AGENCY OF BANCROFT  
Schedule of Findings and Responses  
Year Ended December 31, 2008

Part III: Findings Related to Grant Programs:

INSTANCES OF NONCOMPLIANCE:

III-08-01     Tenant Security Deposits - Management has charged tenant security deposits based on a flat rent, not the one-month's rent as required in the Admissions and Continued Occupancy Policy (ACOP).

Recommendation - Adjustments should be made to tenant security deposits and excess deposits returned to tenant.

Response - Since June 2009, tenants are charged the proper security deposit amount.

Conclusion - Response accepted.

III-08-02     Annual Recertification - Noted one instance with no documentation that income was verified at time of annual recertification and no documentation that the required annual recertification form was completed by applicant

Recommendation - All income listed on signed annual recertification should be independently verified with outside sources to ensure program applicability of tenant and correctness of the computed rent amount.

Response - Since October 1, 2008, all information is verified.

Conclusion - Response accepted.

III-08-03     Inconsistent Unit Data - It was noted that a tenant was in a one-bedroom unit, but the HAPPY computerized system lists the unit as a two-bedroom.

Recommendation - Procedures should be in place to ensure the accuracy and completeness of the information entered into the HAPPY system.

Response - Correction has been made.

Conclusion - Response accepted.

III-08-04     Inadequate Signatures on Public Housing Documents - The applicant's lease at time of program entrance was not signed and dated by the applicant.

Recommendation - Management should develop a checklist to ensure all HUD required documents are signed, dated and in the file prior to lease up and occupancy. As items are received and/or signed they should be checked off. All items should be checked off prior to the tenant being allowed to occupy the unit.

Response - Since October 1, 2008, a checklist is used and documents are reviewed.

Conclusion - Response accepted.

LOW RENT HOUSING AGENCY OF BANCROFT  
Schedule of Findings and Responses  
Year Ended December 31, 2008

Part III: Findings Related to Grant Programs: (continued)

INSTANCES OF NONCOMPLIANCE: (continued)

III-08-05     Calculation of Tenant Rent - At time of applicant's annual recertification, there was no documentation of tenant rent calculation.

Recommendation - Management should develop a checklist to ensure that all HUD required documents are included in the file prior to lease up and occupancy. All items should be checked off prior to the tenant being allowed to occupy the unit.

Response - Since October 1, 2008, a checklist is used and documents are reviewed.

Conclusion - Response accepted.

III-08-06     Declaration of Citizenship - It was noted the Declaration of Citizenship was not obtained and filed for a tenant's child at time of initial application into the program.

Recommendation - Management should develop a checklist to ensure all HUD required documents are obtained and filed prior to lease up and occupancy. All items should be checked off prior to tenant being allowed to occupy the unit.

Response - Since October 1, 2008, a checklist is used and documents are reviewed.

Conclusion - Response accepted.

III-08-07     Rent Collection - The tenant rent register was reviewed and it was noted that a large percentage of tenants were consistently paying rent beyond the fifth of the month with late fees being charged inconsistently.

Recommendation - The Board should review and/or update the rent collection policy and instruct management to adhere to that policy to ensure policy compliance and good business practice.

Response - Since October 1, 2008, this matter has been resolved.

Conclusion - Response accepted.

III-08-08     Unit Occupancy - A tenant who is occupying a three-bedroom unit is only qualified to occupy a two-bedroom unit due to HUD and agency cohabitation rules.

Recommendation - Management should notify the over-housed tenant that they may need to re-locate if a qualified applicant requires a three-bedroom unit based on HUD and Agency guidelines. Management should also review HUD guidelines to ensure compliance for qualified occupancy.

Response - As of July 2009, families are being reassigned to the proper sized unit.

Conclusion - Response accepted.

LOW RENT HOUSING AGENCY OF BANCROFT  
Schedule of Findings and Responses  
Year Ended December 31, 2008

Part III: Findings Related to Grant Programs: (continued)

INSTANCES OF NONCOMPLIANCE: (continued)

- III-08-09     Checks Are Being Written Without Proper Authorization - The significant deficiency at II-08-01 also applies to the grant program.
- III-08-10     Paid Invoices Not Effectively Cancelled - The significant deficiency at II-08-02 also applies to the grant program.

The items discussed in III-08-02, III-08-04, III-08-05 and III-08-06 are basic requirements of participation in the grant program. Failure to comply with these basic requirements calls into question the validity of the tenant's participation in the program and the manager's ability to administer the program.

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-08-01     Official Depositories - A resolution naming official depositories has not been approved by the Agency. Chapter 12C.2 of the Code of Iowa requires that every public body adopt by resolution or order a depository resolution stating the name of each depository approved by the board and the maximum amount that may be kept on deposit in each depository. Failure to comply with this section may eliminate the Agency's participation in the state sinking fund protection.

Recommendation - The Agency should immediately adopt a resolution naming official depositories and the maximum amount to be kept in those depositories at any one time.

Response - On February 9, 2009, Resolution No. 02-09-01 naming official depositories was approved.

Conclusion - Response accepted.

- IV-08-02     Questionable Expenditures - I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- IV-08-03     Travel Expense - No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted. No travel advances to Agency officials or employees were noted.

- IV-08-04     Business Transactions - Business transaction between the Agency and Agency officials or management are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
John Murphy - owner M & M Services and Murphy Management	Grounds maintenance and certifications	\$6,055

Recommendation - The Agency should consult legal counsel to determine if a conflict of interest exists.

Response - Since October 1, 2008, John Murphy, M & M Services, and Murphy Management are no longer involved with the management of this program.

Conclusion - Response accepted.

LOW RENT HOUSING AGENCY OF BANCROFT  
Schedule of Findings and Responses  
Year Ended December 31, 2008

Part IV: Other Findings Related to Required Statutory Reporting: (continued)

IV-08-05     Bond Coverage - Surety bond coverage of Authority officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-08-06     Deposits and Investments - Chapter 12B.10b of the Code of Iowa requires all political subdivisions to have an approved, written investment policy which incorporates the guidelines specified in Section 12B.10, Sections 12B.10a through 12B.10c. The investment policy needs to be approved by the Board of Commissioners. The Board of Commissioners has not approved an investment policy for the Agency.

Recommendation - The Agency should develop and the Board of Commissioners should approve a written investment policy for the Agency. Once the investment policy is written and approved, the Code requires that a copy of the written investment policy shall be delivered to all of the following: a) the governing body or officer of the public entity to which the policy applies, b) all depository institutions or fiduciaries for public funds of the public entity and c) the auditor of the public entity. The policy should be reviewed on an annual basis.

Response - An investment policy will be presented to the board at the September 14, 2009 meeting for approval.

Conclusion - Response accepted.

IV-08-07     Commission Minutes - Chapter 21.3 of the Code of Iowa requires that the vote of each individual board member be able to be determined from the minutes of the commission meeting. The vote of each individual commissioner is not able to be determined from the minutes as they are currently written. As an example, "there were no nay votes" does not adequately record the vote as there could have been abstentions. "Motion passed" does not show the vote of each individual. It only shows that a majority of the commissioners voting voted to pass a resolution or motion.

Recommendation - The minutes should be written in such a manner as to determine the individual vote of each commissioner. This may be done either through recording a roll call vote or noting those individuals who vote "nay" or "abstained" from the vote.

Response - Since October 1, 2008, all votes are noted, and "nays" and "abstain" indicate vote as well.

Conclusion - Response accepted.

Minutes of the Board of Commissioners are not authenticated by the chairperson and secretary by their signatures.

Recommendation - All minutes of the board should be signed and authenticated by the meeting chairperson and secretary.

Response - Since October 1, 2008, minutes have been signed as required.

Conclusion - Response accepted.

LOW RENT HOUSING AGENCY OF BANCROFT  
Schedule of Findings and Responses  
Year Ended December 31, 2008

Part IV: Other Findings Related to Required Statutory Reporting: (continued)

IV-08-07 Minutes of the Board of Commissioners were not being published in (continued) accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation - Management should review Chapter 372.13(6) of the Code of Iowa and develop procedures to ensure Commission minutes are published in the required time frame with the proper information included.

Response - Since October 1, 2008, minutes have been published in the local newspaper.

Conclusion - Response accepted.

Minutes of the January 14, 2008 meeting do not accurately reflect the activities of the meeting. The minutes intimate that sealed bids for a furnace replacement were opened, but did not disclose which bid was accepted for the project.

Recommendation - The minutes should be accurately prepared and closely read by the Board members before voting to approve them. The minutes are a permanent record of the actions of the governing board and should be treated as such.

Response - Comment noted.

Conclusion - Response accepted.